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Effect of Board Size on the Capital Adequacy of Money Deposit Banks

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Abstract: *The aim of this study is to determine the effect of board size on the capital adequacy of money deposit banks. The research design adopted by this study is the quantitative approach. The population of interest for this study comprised the twenty-two deposit money banks listed on the Nigerian Stock Exchange (NSE) as at March (2016) for the period of sixteen years from 2000 to 2016. The study utilized only the secondary source of data. The board size contributes positively to the capital adequacy of the selected money deposit banks in Nigeria. The coefficient of determination which measures the control power of the independent variable over the dependent variable was calculated with the instrument of adjusted R-Squared and it yielded 0.591596. This entails that the variations in capital adequacy of the selected deposit money banks is significantly influenced by the board size. This is in the magnitude of 59.156%. This is significant given that it is beyond average. Based on the findings, the study concludes that on the average, board size have significant positive effect on capital adequacy of money deposit banks. Anchored on this finding, it is recommended that there should be optimal sustenance of the existing board size and should only be altered when objectively necessary.*

Key words: *board size, capital adequacy, money deposit*

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1. Introduction

Bank Boards have been placed with many prospects, reflecting the significant role banks have in our financial system. Some of these requirements derive from federal law and/or regulations. Others are included in guidance provided to boards by the bank regulatory agencies. It is important to note, however, that directors sitting on the bank of boards owe a fiduciary duty only to the shareholders of the firm (Jacob, 2011). These bank directors are held responsible for exercising the same duties that are assigned to all corporate boards by state corporate law. The precise role and supremacy of boards in any crisis or normal circumstances remain unidentified; it is obvious that directors are not likely to take into account the interests of other stakeholders, for instance, creditors, and taxpayers when making decisions. Unless the corporation is in distress, it may even be against the law for them to do so (Macey & O'Hara 2003).

Jeon, & Miller (2006), observe that in areas where there is a risk that the board of directors would be dominated by senior management or political influences, board should take action though may not be the bank's best interest, even though it may be in the personal interest of insiders or major shareholders, or likely for divergence of interest in key areas. Examples of such key areas include ensuring the reliability of financial and non-financial reporting, evaluation of related-party dealings, the selection of board members and key executives. Capable independent directors can bring new outlook from other businesses that may advance the strategic trend given to management, such as insight into local circumstances, and can also be important sources of management proficiency.

Njoka (2010), confirms that every board has an adequate need for collective knowledge of each of the types of financial activities the bank intends to pursue. The board should have satisfactory knowledge and experience to enable efficient governance. In some cases, however, bank directors who are not engaged in management functions may not have detailed knowledge of banking, finance, risk management, conformity, skill, ability, and proficiency. Where otherwise qualified individuals lack such knowledge, banks are encouraged to implement programs of ongoing education for board members or take other steps to ensure that such knowledge is available to the board, in order to better enable them to fulfill their responsibilities (Rashid & Lodh 2008). Board effectiveness is particularly important in the Nigerian financial sector because a number of financial failures, frauds, loss of public confidence, and poor rate of returns on investment, corruption, criminality and questionable business practices have adversely affected investors' confidence. The objective of this study is to determine the effect of board size on the capital adequacy of money deposit banks.

2. Methodology

2.1. Research Design

Quantitative approach research design was adpoted for this work. This is because, it gives room for statistical and econometric estimations for the actualization of the research objectives.

2.2. Population and Sample Size of the Study

The population of interest for this study comprised the twenty-two deposit money banks listed on the Nigerian Stock Exchange (NSE) as at March (2016) for the period of sixteen years from 2000 to 2016. Non-probability method in the form of judgmental sampling technique was employed in selecting nine banks. The nine banks are as follows: First Bank of Nigeria Plc, Diamond Bank Plc, Ecobank, Fidelity Bank, Union Bank, United Bank for Africa, Zenith Bank, Access Bank and Sterling Bank Plc.

2.3. Sources of Data Collection

The study utilized only secondary data because panel data was relied upon in the estimation of the models which involved financial statements of the sample banks. The data were sourced from the annual reports and accounts of the sampled banks for all the relevant years covered by the study.

2.4. Method of Data Analysis

In this research, the method of data analysis is the Linear regression with the application of Ordinary least squares (OLS) technique.

2.5. Model Specification

$$CADE = \beta_0 + \beta_1 BDS + u \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3.1)$$

BDS = Board Size, CADE = Capital Adequacy B's = parameters to be estimated and Us = the stochastic error term.

3. Findings and Results

3.1. Board Size vs Capital Adequacy

Dependent Variable: LOG(CAPADEQUACY)
Method: Least Squares
Date: 01/17/18 Time: 17:20
Sample: 2000 2016
Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.37158	0.331567	40.32848	0.0000
BOARDSIZE	0.001883	0.002084	3.903657	0.3805

R-squared	0.617629	Mean dependent var	13.16292
Adjusted R-squared	0.591596	S.D. dependent var	0.975446
S.E. of regression	0.981085	Akaike info criterion	2.909816
Sum squared resid	14.43792	Schwarz criterion	3.007841
Log likelihood	-22.73343	Hannan-Quinn criter.	2.919560
F-statistic	0.816597	Durbin-Watson stat	2.304081
Prob(F-statistic)	0.380461		

Source: E-views OutPut

Model Line: CAPADE = bo + b1BDSIZE

Regression Line: CAPADE = 13.37158 + 0.001883**BDSIZE**

The regression line above clearly shows that the numerical coefficient of Board Size (BDSIZE) yielded a positive value at the magnitude of 0.001883. This entails that there exists a positive relationship between board size and capital adequacy (CAPADE). It further entails that board size contributes positively to the capital adequacy of the selected money deposit banks in Nigeria. The coefficient of determination which measures the control power of the independent variable over the dependent variable was calculated with the instrument of adjusted R-Squared and it yielded 0.591596. This entails that the variations in capital adequacy of the selected deposit money banks is significantly influenced by the board size. This is in the magnitude of 59.156%. This is significant given that it is beyond average.

3.2. Test of Hypothesis

Restatement of hypothesis in null and alternate forms

Ho: Board size has no significant positive effect on the capital adequacy of money deposit banks.

Hi: Board size has significant positive effect on the capital adequacy of money deposit banks.

The regression table above shows that the computed t-statistics yielded 3.903657 and a check at the tabulated t-statistics at 5% level of significance yielded 2.131. This shows that the computed value of the t-statistics is greater than its tabulated value.

The decision rule is to accept the alternate hypothesis (Hi) if the computed t-statistics (t*) is greater than the tabulated t-statistics ($t_{0.025}$) otherwise accept the null hypothesis.

From the above analysis, it is clearly seen that the computed t-statistics value = 3.903657 is greater than its tabulated value of 2.131. This compels the rejection of the null hypothesis (Ho) and the acceptance of the alternative (H_1). Hence; board size has significant positive effect on the capital adequacy of selected money deposit banks in Nigeria.

Board size has significant positive effect on the capital adequacy of selected money deposit banks in Nigeria ($t^*_{calculated} = 3.903657 > t^*_{critical} = 2.131$).

The tested hypothesis of the analysis reveals that board size has significant positive effect on the capital adequacy of selected money deposit banks in Nigeria. This entails that board size significantly influences the level of capital adequacy in deposit banks in the economy. This is in line with the findings of Sanda, Mikailu, & Garba, (2010), who explored the link between board size and assortment and financial presentation of insurance firms in Nigeria, with a precise indication of how gender diversity, ethnic diversity, board size, board composition and foreign directorship affect the financial performance of insurance companies listed on the Nigerian Stock Exchange. The study reveals a significant relationship between board size and performance of insurance companies in Nigeria. The findings were however contrary to the findings of Oluyemi (2005), who carried out a study to examine the correlation between board composition and performance of Nigerian financial sector. The findings of the study showed that when there are more external board members, the performance of banks tends to be worse.

4. Conclusion

Based on the findings, the study concludes that on the average, board size have significant positive effect on capital adequacy of money deposit banks.

5. Recommendation

The finding of this study is that board size has significant positive effect on the capital adequacy of selected money deposit banks in Nigeria. Anchored on this finding, it is recommended that there should be optimal sustenance of the existing board size and should only be altered when objectively necessary.

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